STATIONPARK: AN ANALYSIS OF THE PROPOSED DEVELOPMENT OF THE ROUTE 128 TRAIN STATION FACILITY

by
William Schwartz

Real Estate Development
Kennedy School of Government
Professors Marchant and Vidal
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ABSTRACT

The development of real estate at transportation facilities was done almost exclusively by the private sector until recent years, when public entities such as the Massachusettts Bay Transportation Authority began to develop excess land parcels for joint development uses. STATIONPARK is the first major project of its kind in the Boston metropolitan area. The proposed $44.5 million development includes office space, a hotel and parking facilities on a very small parcel of land. Since the site is a train station and parking lot and since it is in two towns, several unique complexities are associated with the project. Financially, the project has few problems, assuming that the other obstacles can be overcome.

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Introduction

In 1889, the first electric streetcar line was opened in Boston, providing service from the Allston railroad depot to Park Square. Soon thereafter, bankers and speculators extended streetcar lines into underdeveloped areas, and constructed housing and terminus attractions such as amusement parks. These entrepeneurs reaped tremendous benefits from the sale of their land. The transit lines increased the value to the property along the rail right-of-way and the housing developments captured that value increase.

Suburban development along Boston rail lines is one of the earliest examples of sucessful developement of rail corridor real estate. Transportation access helped to create some of the strongest market factors for sucessful suburban development. Until recently however, the benfits associated with development of land uses adjacent to transportation facilities have largely accrued to the private sector. Public transportation entities such as the Massachusetts Bay Transportation Authority (MBTA) have, until recently, created valuable parcels of real estate through the construction of transit lines only to see private interests reap the benefits of increased land values.

To remedy this shortfall in public benefits, the MBTA has developed a land disposition program. Some of the goals of the program are to take advantage of developing surplus and underused parcels by generating revenues, to improve station facilities, and to promote ridership of the system. The first project in this program is the development of the Route 128 Railroad Station property in the towns of Dedham and Westwood, soon to be known as STATIONPARK.

The propsed development of the train station and parking lot facilities at Route 128 is a major real estate project. The $44.5 million development plan as proposed by Gilbane Properties, the development arm of the Gilbane Construction Company, is the first major real estate project to be done in joint development with the MBTA. Joint development projects,such as STATIONPARK,which are a means for capturing the value created by transportation corridors for public benefit, return all lease revenues generated by a development such as STATIONPARK to the transit agency.

The significance of STATIONPARK, in addition to its size, is the nature of the arrangement between the developer and the MBTA. While the MBTA has been involved in value capture arrangements in the past, namely the development of the concourse at Washington Street station connecting the basements of Jordan Marsh and Filenes, STATIONPARK is unique for the following reasons:

- The majority of its value is created not by rail access but by its proximity to the Route 95 terminus and to Route 128, the inner belt highway serving the suburbs of Boston.
- The development will mark the beginning of a new role for the MBTA as a landlord for non-transportation functions.
- The project plan integrates the railroad facilility, a fairly active commuter station, with a large office/hotel/ parking complex resulting in a significant amount of activity on a very small parcel of land.

The Site

The Route 128 train station property consists of approximately 6.1 acres of land, 4.1 acres of which are situated in the town of Dedham with the remaining land in the Town of Westwood. The site currently consists of a single-story brick railroad station with ticket office and waiting area on the outbound side of the railroad tracks, a pedestrian crossover to the other side and a waiting area on the eastern side of the tracks. The remainder of the site is a 750-space, poorly maintained asphalt parking lot used by AMTRAK Northeast Corridor passengers and passengers of the MBTA Main Line commuter rail line which runs from South Station in Boston to Attleboro.

The train station and parking facility is an eyesore from all perspectives. The main station building is a red brick structure which is in fair condition and is the best feature on the site. The pedestrian crossover is old and unappealing and the waiting area on the opposite side is also in poor condition

The land parcel is situated on the border of Dedham and Westwood, two distinct communities approximately ten miles from downtown Boston. The site is also at the intersection of Route 128 and the terminus of route 95. Route 95 continues (in name only) onto Route 128 northbound while Route 128 southbound becomes Route 93. The road is actually Route 128, the major expressway which encircles the Boston suburbs (refer to figure one).

The site is also a train station, lest we forget, serving 600 commuters and 220 Amtrak passengers daily. This station is included in the Northeast Corridor Improvement Project, a major federally-funded reconstruction project of the rail corridor between Boston and Washington, D.C. Route 128 was once conceived as the first stop on a high speed run to New York which was expected to take three hours (down from five). These plans have been scaled down and although one can fly to New York for less than the train fare, service improvements and the general appeal of train travel make the future prospects for the station seem bright.

A drive along Route 128 is becoming less and less of a rural freeway experience (especially during rush hour!) as the pace of development along "America's Technology Highway" is brisk. Development of high-tech industries along the segment of Route 128 north of the Massachusetts Turnpike is strong (the source of the corny coinage). The segment of the highway in which the site is located is in a slightly less expensive area for prime office rents.

Dedham and Westwood are distinct suburban communities. Dedham is the site for major strip development along Route One while Westwood has more of a residential orientation with some strip, industrial and commercial office development. Each town has its share of problems however; and many of these are associated with the site itself (a more detailed discussion can be found in Appendix A).

The Development Plan

The Gilbane Properties's development plan consists of staged construction of a 150,000 square foot, six story first-class office building with a 525-car parking garage in the first phase. This will be followed by a 100,000 square foot, six story building with a 500-car garage in the second phase. Assuming these two projects are successful, the third phase will consist of a 250-room, ten story motor hotel with a 250-car garage followed immediately by another 300-car garage. The phasing of the development includes provisions for minimization of parking disruptions due to construction and provides the developer with opportunities to modify the project (within limitations) as needed once occupancy is achieved.

The train station will also be redeveloped with new buildings on either side of the tracks which incorporate the notion of rail passenger travel into the development.

In its final form, contingent upon successful leasing through all of the phases and barring any unforseen institutional obstacles or other external changes (such as high inflation), the project will include:

1. 250,000 square feet of first-class office space designed to be a "corporate headquarters" address with high quality exterior and interior finishes and detail;

2. a 250-room motor hotel with a theme dining room, sunken lobby-bar and meeting/banquet facilities all designed to offer easy access to the commuters and railroad passengers. The hotel would serve the visiting office population, commuters and office tenants. Underneath the hotel, a two-level 300-car garage will be built; and,

3. a multi-level parking garage with several entrances/exits for 1,675 cars to be constructed in three phases. The garage will be designed to accomodate separate operating strategies such that MBTA commuters will park in one of the three sections. Some surface parking will be provided including some short-term "live" parking for the train station.

Refer to figures three and four for a drawing and a photograph of the project plan. The development plan includes the following dates for project phasing assuming the completion of the first building nine months after construction begins:

Table 1

STATIONPARK Project Phasing

Phase	Project	Commencement	Completion	95% Lease-Up
Pre-Dev. Phase	zoning, environmental and public approval	4/83	6/84	
I	150,000 s.f. 6 story office 525 car garage	6/84	10/85	5/86
II	100,000 s.f. 6 story office 500 car garage	5/86	7/87	1/88
III	350 car garage	8/87	5/88	
IV	250 room hotel 300 car garage	6/88	10/89	

The Actors And Their Objectives

Public/private partnerships in real estate development projects involve a multitude of actors and interests. STATIONPARK is no exception. There are four primary actors and a minimum of eight secondary actors. The primary actors are the development team, the MBTA, and the Towns of Dedham and Westwood. Secondary actors (although less significant for this analysis) include AMTRAK, the Metropolitan District Commission, the Department of Environmental Quality, the Dedham Water Company, the Executive Office of Transportation and Construction, the Metropolitan Area Planning Council, and residents and other individuals. To further complicate the situation, each actor has a unique set of objectives.

The Development Team- Gilbane Properties, Incorporated, is project developer. Its parent company, Gilbane Buiding Corporation, will serve as general contractor. The architect is Eduardo Catalano Architects and Engineers and Vannasse/Hangen Associates is conducting site engineering. The team which Gilbane has assembled has an established track record and need not be analyzed.

Gilbane Properties, a rapidly growing devlopment concern with considerable resources and many successful projects in place, has two main objectives. It would certainly like to enjoy a strong return on this investment first and foremost. The second objective, although somewhat less difficult to measure, is the establishemnt of a secure relationship with an agency such as the MBTA. This agency owns alot of developable property in the metropolitan area. Since STATIONPARK is the first project of its kind in the

Boston region, the MBTA and other transportation agencies will be carefully monitoring the results of the project. Should it suceed, ~~as I believe it will~~, Gilbane Properties will have entered into a relationship with the MBTA which would have tremendous future benefits.

The MBTA- The role of the MBTA in this project is as a simple landlord. This development will mark the first major landlease arrangement and the first joint development project for the MBTA. The objectives of the MBTA are based on the goals of the land disposition program described earlier in this paper. The MBTA would like to be guaranteed its leasehold payment of $400,000 per annum and would like to receive any additional revenues from excess sales (the subject of current negotiations). Also, the novelty of this project is even more important for the MBTA than for the developer. Many of the aforementioned secondary organizations are watching this project closely to guage their own efforts in the field of public/private partnerships.

The Towns of Dedham and Westwood- While these two towns have quite different objectives in many regards, their common objective is to generate some revenues from a parcel of land for which they are currently paid nothing. As mentioned previously, Dedham is a community more oriented to commercial development than is Westwood. A review of zoning maps from each of the two towns supports this view. The Dedham portion of the parcel (see figure four) is surrounded by railroad tracks, Route 128, and Westwood on three of the four sides of the site. It has no residents' concerns to deal with, but does have some valid concens about zoning, water supply, wastewater abd traffic to be discussed below.

Dedham currently receives no benefits at all from this parcel and stands to gain a significant portion of the $700,000 annual in lieu tax payment from the developer. Whether the payment covers the cost of town services demanded is uncertain at this time.

Westwood receives no tangible benefits from this parcel which is surrounde by railroad tracks on one side and Dedham on two other sides. Neighborhood residents do have a view of the Blue Hills which will be eliminated by the new buildings. Westwood would like to generate tax revenues from this site as well, but must do so without alienating neighborhood residents.

Analysis of Development Issues

According to Robert Gilbane, president of Gilbane Properties, Inc. STATIONPARK is probably as complex as a suburban development can be. The negotiating process, site restrictions, and egineering constraints are as complicated as downtown development projects. One of the major concerns for Gilbane is the MBTA requirement that 750 parking spaces be maintained for rail passengers. In order to make a project such as STATIONPARK succeed on a 6.1 acre parcel with so many spaces reserved for the MBTA, the parcel must be developed at high density. This leaves almost no open space on the entire parcel. Unlike many downtown developments however, zoning laws in both towns have maximum height requrirements of less than 150 feet.

Transportation Issues- The basis of the MBTA requirement for 750 spaces and the source of most of the zoning issues is that this parcel is a train station. Preservation of this site as a commuter and AMTRAK passenger station is an important goal to the MBTA. In addition to the 750 required spaces, "live" parking would be required for pick-up/drop-off activities.

Traffic circulation and parking concerns are quite important. Existing conditions are characterized by illegal parking outside of the lot, long queues during peak hours, and no parking problems within the lot, which is currently underutilized. Traffic circulation studies are currently being done and no plan has yet to be finalized.

Given the 300 space cushion between current use and the 750 space MBTA requirement, it would appear that the needs of commuter passengers will be served. However, the plan does not incorporate the demand for Amtrak passengers. Estimates for these are as high as 600 spaces and altholugh existing patronage of the system is only 220 boardings per day, the demand may increase in the future.

Minimum parking requirements in Dedham call for one space per 2 sleeping accomadations plus one space per three employees in the hotel and one space per 300 square feet of office space. This translates into requirements of 279 hotel spaces and 834 office spaces. Therefore 1,113 spaces are required, and

when 750 commuter spaces are added, the total requirements are 1863 spaces. During the construction years a minimum of 350-400 spaces have been promised to be available.

The developer is planning to provide a total of 1650 spaces with the breakdown as follows:

Table Two
PARKING PLAN FOR STATIONPARK

PROJECT PHASE	PARKING REQURED	PARKING PROVIDED
Building One 150,000 SF	525	600
Building Two 100,000 SF	350	400
Hotel 250 rooms	250	300
Remaining Parking	325	325
Total Parking	1450	1625

Market Study

The two elements of STATIONPARK for which the market potential should be reviewed are the demand for new hotel space and the demand for first class office space. Gilbane Properties, with an established and successful track record, would not be involved with the project if the market was not good. Rather than look at the normal issues, this section will review two of the assumptions of the relative strength of the market which were used in the financial statements for the project.

Gilbane's market analysis of hotel potential found: superior visibility to seven other corporate headquartes; seven other hotels in the market with an average occupancy of 84%; evidence of a lack of sufficient meeting and convention facilities; and, a high potential for significant economic growth.

A survey of some of these hotels ws done by telephone to verify the 84% level of occupancy as reported by Gilbane. Two of the neighboring hotels, the Dedham Inn and the Holiday Inn-Dedham had average occupancy levels of 75%. Discussions with a prominent hotel devloper indicated that these figures are quite reasonable for this particular area.

The market for office space in the study area is fairly good for landlords at present. Five buildings in the Dedham/Westwood area were surveyed for comparable rents and occupancy levels are described in Table 3 below.

Table 3

ANALYSIS OF THE PRIME OFFICE SPACE MARKET

BUILDING NAME	LOCATION	RENT $/SF	TERMS	LEASABLE SF	VACANCY RATE	NOTES
Westwood Office Prk	Westwood	18.50	stops: $1 power $1.5 RET	100,000	0%	
Norfolk Place	Dedham	19.25	gross	45,000	15%	new bldg now being leased
886 Washington St	Dedham	18.50	triple net	52,000	20.9%	
888 Washington St	Dedham	14.00	triple net	52,000	8.9%	
990 Washington St	Dedham	17.00	gross	180,000	2.1%	

As indicated by the information from this table, most of the buildings are doing well. Of addded significance is the complete leaseup of Westwood Office Park, the parcel next to STATIONPARK. There appears to be sufficient market support for an additional 150,000 square feet by late 1985, bolstered significantly by the interest expressed by Cullinet Software in the new site.

Risk Analysis

Cullinet, which currently occupies 70% of the building next door to the parcel, has expressed an interest in occupying the first 150,000 square foot building. Their commitment depends upon the timing of the construction project, all of which is contingent upon the local negotiating process. It certainly is reassuring however, for a developer when a building can be partially preleased.

In terms of the hotel, Gilbane has received several serious inquiries from major hotel chains. Contingent upon the then current market, the hotel will be the last element of the project. Given 250,000 built square feet on the actual parcel, 100,000 feet next door with high-tech tenants who have a national travel oriented focus, a train station, and direct visibility from Route 128, if the market is not ripe now, it will be at the time of construction.

The developer was required to submit a good faith deposit at the time of the proposal submission. This money and the fees of those on the development team to date, plus the developer's time are the only expenditures on the project. Since the land is owned by the MBTA, and since there is no purchase and sale agreement, there are no high carrying costs.

The one uncertainty about the project, as has been mentioned previously, is the parking situation. The current plan has a parking shortfalls. However the developer plans to "shear" a portion of the hotel parking for commuter use. This is accomplished by the complementary use of the parking for the hotel at night and for the commuters during the day. It is assumed that the extra parking (the 750 commuter spaces) will be "paid for" or justified by the hotel parking and its presumably higher revenues and off-hours utilization.

Financial Analysis

The cost of STATIONPARK, as described in the final proposal, will be approximately $44.5 million. The project shall be financed during construction by Fleet National Bank, Rhode Island's largest commercial lending institution. Permanent financing arrangements, which most likely would be obtained from an insurance company or pension fund have not yet been disclosed. Terms of such an arrangement, however have been disclosed in the financial statements of the project. (e.g. 32 year mortgage at 12.5% interest.) Due to the phasing of the project, if the early projects generate sufficient cash flow, better or alternative financing will probably be arranged.

The unique terms of the arrangement are the result of preliminary negotiations between the developer and the MBTA. Instead of the $500,000 annual ground lease payment requested by the MBTA, the developer will pay a base amount at the start of the project to be increased as each phase is completed. These terms are best understood by referring to the cash flow statements in Appendix B.

The first phase of the project will come on line in 1986, yielding $350,000 in net income, $93,000 of which will go to the MBTA. The lease payments will increase steadily until 1991 when it is anticipated that the gross revenues of the project will exceed $6 million in room sales for the hotel and $5 million for the first office building. After that point, the ground lease will be supplemented by a percentage of the gross revenues over the preset floor such that, by 1998, payments to the MBTA will finally reach the initially desired level of $500,000 in annual lease revenues.

Lease revenues are not the most important aspect of this project from the perspective of the MBTA. If the station site can be improved, with a new facility, 750 commuter spaces and an annual (growing) stream of income to the MBTA, then many of the previously mentioned objectives will have been achieved.

The actual figures presented in the appendix were submitted as estimates for negotiation purposes. Therefore a review of their validity is merely an academic exercise. The following is a discussion of the major areas of uncertainty asssociated with the numbers.

The developer assumes a gross rent of $23.50 per square foot (SF) for late 1985 which might be slightly overstated since it is based upon a $21. 1983 rate with a 6% rate of annual increase. As indicated above, comparable space is leasing for $19.25 in 1984. All other office assumptions, including $4.75 for operating expenses (including parking), re-leasing costs, and inflation rates for growth projections seem reasonable. While the $21 assumption for 1983 is indeed high, a rent of $23.50 is less unreasonable if one assumes a higher demand for suburban office space in response to transportation problems in and around the Boston area.

The assumptions for the hotel are reasonable. The developer assumes a $65 room rate for 1983 with 4% inflation and an $83 room rate in 1989. The 75% occupancy figure is completely valid and if anything, the room rates, assuming a new quality hotel (even a motor hotel), appear conservatively low. Therefore we shall assume that the income from the hotel will not change.

The developer groups cash flow projections in five year periods for the two office buildings and separates each year out for the hotel. This is inconsistent. One cannot assume that the entire building parcels will be leased for five year periods at 95% with turnover occurring every five years. Furthermore, if the developer does secure a tenant such as Cullinet for a prelease commitment, then it is unlikely that the revenues will be as high as projected for Building One. It is also likely that the tenant will commit to a longer lease with only minimal escalators on rent. If the developer does secure a prelease tenant, then his lease-up contingency costs will be minimal and his early returns will be higher. Additionally, in the years between the

beginning of percentage payments to the MBTA and the readjustment five years later, revenues to the developer will increase while payments remain constant. This may be unjust criticism since these are simply numbers for discussion.

For purposes of determining return on equity, the devloper worked the projections back to 1983 dollars and yielded a return in year one of $715,000 on $6,185,000 of equity (or 11.5%). This was raised to 13.24% with the prelease commitment due to the aformentioned reduction in lease-up costs and the ability to leverage more of the project.

Conclusions

STATIONPARK is a complex, major development project that can be made successful. It could only be done by an experienced, patient and innovative development team such as the one compiled by Gilbane. The financial pro forma for the project indicates that it can work and should prove quite successful with a significant return on investment. The only drawback of the project is the parking requirement for 750 commuter spaces. Managing this could prove to be a nightmare for the property management team. One would hope that the final arrangements do not interfere with the fact that this is a train station, that commuters use it every day, and their usage and access should be of the highest priority.

APPENDIX A

Other Planning Issues

To give some indication of the difficulties of putting this deal together, this section, although incidental to this paper describes some of the more important constraints of the site and the dealmakning process

Zoning - The first issue raised in this project was the fact that Westwood is a "dry town". This was addressed by placing the hotel in the Dedham portion of the site, which means that the hotel will be surrounded by an 8-lane highway, a train station, and a parking garage. All minimum frontage and set back requirements will necessiate a variance which should not present significant obstacles to the developer. Maximum height requirements, 40 feet in Westwood, is a source of contention as some homes will have their view of the Blue Hills disrupted. Maximum building coverage, which is 50% in both towns, will also require a variance, and open space may be the most debated request before the planning and zoning boards in each of the towns. In Westwood, nearly the entire site is covered by parking facilities.

Water Resources - Water requirements are treated rather lightly by the developer in lieu of the issues raised in the media prior to the proposal submission. The supplier would be Dedham, which claims through its town engineer that: sufficeint pleasure is available; the 65,000 gallons per day will be easily supplied; and, separate fire and domestic feeds will be required. The concerns raised in the media include a request for a joint Dedham/Westwood MDC hookup, contaminated wells within the Dedham Water Company's supply, and the need for water conservation measures during the summer. The fact that these are "not an issue" for the developer is subject to further review

Wastewater - The source of all effluent will be the hotel and offices which are in Dedham. Dedham has no sewer system. Westwood does. It is a gravity system with 10 inch pipes in the project area expanding to 24 inches on University Avenue. Wastewater is treated via the MDC system and the 60,000 gallons per day added to the system by the project would require pumping. Pumping requires MDC & DEQE approval.

Other Utilities - The developer has indicated that utilities hookups, including fuel, electricity and telephone should present no forseable problems.

Floodplain//Drainage - There are no wetland areas within the site which is within the 100-year flood area. Elevations are 46 feet in Dedham and 47 feet in Westwood. The railroad embankment acts as a dike blocking flows from the Neponset area. The soil structure is dumped fill and will require some structural fill to overcome deficiencies in the soil.